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C O N F I D E N T I A L MANAMA 000054

SIPDIS

DEPARTMENT FOR EEB, NEA/RA, AND NEA/ARP
BAGHDAD FOR AMBASSADOR ERELI

E.O. 12958: DECL: 01/29/2019

TAGS: ECON EFIN BA

SUBJECT: BAHRAINIAN ECONOMIC OUTLOOK DECLINING, AND HIGHLY
SENSITIVE TO OIL PRICE FLUCTUATIONS

REF: A. MANAMA 2
1B. MANAMA 53

Classified By: CDA Christopher Henzel for reasons 1.4 (b) and (d)

11. (C) Summary: Bahrain's financial services sector has begun to feel the effects of the global economic crisis, leaving the economy vulnerable to disruption by oil price fluctuations. Decreasing liquidity and slumping real estate prices have delayed major development projects, and Moody's downgraded its sovereign outlook for Bahrain from A-stable to A-negative. End summary.

12. (C) On January 9, Moody's Investors Services downgraded its sovereign outlook for Bahrain from A-stable to A-negative, largely as a result of the decline in oil prices that have accompanied the financial crisis. Although oil makes up less than 25 percent of Bahrain's GDP, it accounts for nearly 75 percent of government revenues. Moody's commented that unlike other Gulf states, Bahrain simply doesn't have the foreign reserves to soften the blow of the oil price decline (ref A). Central Bank of Bahrain (CBB) Director of Banking Operations, Sheikh Salman bin Isa Al Khalifa, told econoff that the CBB does not anticipate any immediate problems as a result of the change in Moody's outlook forecast, noting that the actual rating remained an "A." Both Fitch and Standard & Poor's have left their sovereign forecasts as "stable" for the time being.

13. (C) Falling real estate values and decreasing liquidity in the financial sector (ref B) have begun to pass through to other sectors of the economy, further dampening the economic forecast. The \$2.4 billion Diar Al Muharraq real estate project has recently been suspended due to insufficient financing. An additional \$545 million real estate joint venture between Nass Corp. and S.A. Murray & Roberts was frozen in January -- company officials blamed the move on tightening credit markets. On January 18, the GOB moved to protect Bahraini jobs from the economic contraction when the King told media that Bahraini citizens should not be fired as companies downsize due to the financial crisis.

14. (C) Comment: Although Bahrain has one of the most diversified economies in the region, its largest sector -- financial services *- is entering a period of decline and does not provide an effective hedge against oil price decreases. If another major sector -- such as travel and tourism -- declines as well, Bahrain's economy will be completely at the mercy of world oil market fluctuations. Bahraini citizens will be partly shielded from some of this trauma as expatriates are absorbing most (but not all) of the job cuts for now.

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